The Salton Sea

TAX INCREMENT FINANCING FEASIBILITY STUDY

October 10, 2003

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Executive Summary

This report evaluates the feasibility of using tax increment revenue funding vehicles such as an infrastructure financing district (IFD) and a redevelopment project area (RPA) to fund infrastructure improvements that restore the Salton Sea (Sea). More specific, it presents projections of potential tax increment revenue the Salton Sea Authority (Authority) may receive from these types of financing vehicles.

Tax increment revenues would be received as a result the establishing either 1) an IFD or 2) an RPA. The boundaries of the IFD and RPA are the same and represent what is known as the "Study Area". The Study Area is comprised of two geographical areas, the Base Area and the Expanded Area. The Base Area is comprised of the Authority's existing jurisdictional boundaries while the Expanded Area includes the Authority's existing jurisdictional boundaries as well as lands on the west, north and eastern sides of the Sea that may experience increases in property value under one or more of the four restoration scenarios proposed for the Sea. The four restoration scenarios are as follows:

- The No Action Scenario - Under the No Action Scenario there is no restoration. There are several potential "No Action" scenarios, including scenarios where the Sea continues its gradual water quality decline but maintains its current elevation and with likely water transfers, where the Sea reduces in size and water quality degradation accelerates.

- The Full Sea Restoration Scenario - The Full Sea Restoration scenario assumes restoration of the entire Sea. Under this scenario the Sea would be maintained at or slightly below its current size and elevation through water transfers and other potential reductions of inflow into the Sea.

- The Salton Lake Concept - The Salton Lake Concept includes several integrated components to manage Sea salinity and elevation. The main component includes a mid-Sea dam, a perimeter channel to convey water to the northern portion of the Sea, expansion of area available for geothermal development and creation of shallow water habitat in the southern portion of the Sea.

- The South Sea Scenario - The South Sea Restoration Scenario would essentially reverse the Salton Lake Concept. A dike could be constructed across the middle reaches of the Sea and a lake could be maintained in the south. Some wetlands could be maintained in the north but would likely be far less extensive than the shallow water wetlands described under the Salton Lake Concept.

To establish an RPA, based on California Redevelopment Law, 80% of the land in a project area must be urbanized meaning it has been or is developed for urban use. Though some of the proposed RPA is urbanized a substantial portion of land has never been developed. To this end, legislation would be required to facilitate redevelopment for a this purpose. Additionally, formation of an RPA would result in providing statutory pass-through payments to affected taxing entities as well as a revenue set a-side requirement for housing development, unless these requirements were eliminated through legislative actions.

In 1999, the California legislature added section 53395.9 to the Government Code to authorize the Authority to form an infrastructure-financing district to capture tax increment to fund Sea restoration projects. As such, there would be no legislation required to establish an IFD. While there are no statutory pass-through payments required with an IFD, there would be the need to negotiate pass-through agreements with effected local taxing entities pertaining to the incremental growth in tax revenue from increased property values.

Tax increment revenue projections were prepared for both the IFD and RPA alternatives. Revenues are projected over a period of 45 years and assume a base year of 2004-05. The projections incorporate a general growth factor and estimates of new development occurring as a result of restoration of the Sea. Based on the restoration scenarios, property locations and an estimated likelihood of development occurring adjacent to the shores of the Sea, factors ranging from 2% to 20% were applied to the gross acreage of land adjacent to the Sea to determine the amount of acres, which could likely be used for development. Once the usable acres were converted to square feet a floor-area-ratio (FAR) of 30% was applied to arrive at the development capacity under each restoration scenario.

As previously noted, under the No Action Scenario there is no restoration of the Sea. Under the No Action Scenario, the RPA and IFD funding alternatives would not be applicable. However, revenue projections which present an estimate of growth in assessed property values surrounding the Sea were prepared using the standard 2.0% annual inflation adjustment established under Proposition 13. Approximately $237.0 million would be generated under the No Action Scenario within the boundaries of the Base Area with a net present value of $62.3 million. Over $253.0 million would be generated within the Expanded Area boundaries with net present value of $65.6 million.

Establishment of an RPA could generate tax increment revenue in an amount ranging from $626.5 million under the South Sea Scenario to $960.0 million under the Salton Lake Concept within the Base Area boundaries. These amounts are net of statutory pass-through payments to local taxing entities and the 20% housing set a-side requirement. Assuming the Authority retains the 20% set a-side, these revenues would increase. Once the pass-through payments and the 20% housing set a-side have been deducted, tax increment revenues could range from $779.9 million under the South Sea Scenario to $2.0 billion under the Salton Lake Concept within the boundaries of the Expanded Area. These revenues would also increase assuming the Authority retains the housing set a-

side the revenues. The following table depicts tax increment revenue generated under the RPA alternative.

REDEVELOPMENT PROJECT AREA

Cumulative Net Revenue (FY 2004-05 THRU 2049-50)			
	Full Sea Scenario	**Salton Lake Concept**	**South Sea Scenario**
Base Area	$764,464,416	$960,041,081	$626,589,730
Expanded Area	$1,663,103,851	$2,077,048,446	$779,925,656
Net Present Value of Cumulative Net Revenue (FY 2004-05 THRU 2049-50)			
Base Area	$146,054,666	$188,800,857	$133,025,643
Expanded Area	$288,892,802	$389,379,773	$161,071,995

As shown in the table below, establishment of an IFD would generate tax increment revenue within the boundaries of the Base Area in an amount ranging from $822.9 million under the South Sea Scenario to $1.2 billion under the Salton Lake Concept. This range in revenue is approximately $196.3.0 million to $288.2 million higher than that of an RPA. Expanding the boundaries would increase the amount of tax increment revenue generated under the IFD to a range of $1.0 billion under the South Sea Scenario to $2.6 billion under the Salton Lake Concept.

INFRASTRUCTURE FINANCE DISTRICT

Cumulative Net Revenue (FY 2004-05 THRU 2049-50)			
	Full Sea Scenario	**Salton Lake Concept**	**South Sea Scenario**
Base Area	$1,024,107,912	$1,248,246,881	$822,937,291
Expanded Area	$2,128,960,054	$2,631,250,607	$1,034,881,022
Net Present Value of Cumulative Net Revenue (FY 2004-05 THRU 2049-50)			
Base Area	$186,434,855	$233,909,558	$165,277,064
Expanded Area	$357,757,649	$477,273,903	$202,953,659

Based on the findings presented in this report it is RSG's recommendation that the Authority pursue the establishment of an IFD rather than an RPA. The IFD alternative would result in more revenue to the Authority than the RPA alternative assuming agreements can be successfully negotiated with effected taxing

entities, which would allow the Authority to retain all of the tax increment generated under the IFD. Additionally, the IFD alternative would not require special legislation in order to be implemented. Furthermore, unless special legislation can be developed to facilitate redevelopment for a special purpose establishment of an RPA could not be accomplished at this time.

Assuming the Authority is unable to negotiate an agreement with the affected taxing entities, which would allow the Authority to retain all of the tax increment, less revenue would be available to the Authority. If after reviewing the requirements to gain taxing entity approval for forming a district it is found that revenues available to the Authority are significantly reduced, it may be feasible to pursue the necessary legislation in order to form an RPA.

RSG also recommends that due to the potential for increased development opportunities and significant increases in tax increment revenues generated, the jurisdictional boundaries of the Authority should be expanded in order to facilitate the growth in value of properties that could be influenced by restoration of the Sea.

Introduction

This report presents the Rosenow Spevacek Group's (RSG) findings pursuant to using an infrastructure financing district and redevelopment tax increment revenue funding vehicles to fund infrastructure improvements that restore the Salton Sea (Sea). It presents the methodology employed to develop revenue projections, and projections of potential revenue the Salton Sea Authority may receive from these financing vehicles.

The Salton Sea

The Sea is located in the southeastern desert of California and spans Riverside and Imperial Counties. The Sea is California's largest inland water body, and sustains a rich ecosystem that is a critical link in the Pacific migratory bird flyway and a world-renown bird-watching destination. Its recreational fishery is known as one of the most productive in California. It is our understanding however, that the Sea's vitality is threatened by gradually increasing salinity that will eventually destroy the fishery and much of the ecosystem. Furthermore, the perception that the Sea is dying has significantly depressed surrounding property values.

The Salton Sea Authority

The Authority was created in June of 1993. It was formed as a public agency under a joint powers agreement by and between the County of Imperial, the County of Riverside, the Coachella Valley Water District and the Imperial Irrigation District (Parties) pursuant to the provisions of Articles I and II, Chapter 5, Division 7, Title 1 (commencing with Section 6500) of the Government Code of the State of California.

The purpose of the Authority is to facilitate the preservation and restoration of the Sea as an ecological and recreational resource, as well as a continuing repository of agricultural drain water. Though it is anticipated that an effective restoration project would be costly, it could result in substantial private investment in the area thus, resulting in significant increases in property values as well as incremental increases property taxes.

Based on an effort sponsored by the Authority along with other local supporters, in 1999, the California legislature added section 53395.9 to the Government Code to authorize the Authority to form an infrastructure-financing district to capture tax increment revenue to fund Sea restoration projects.

Jurisdictional Boundaries of the Authority

The Authority shall exercise its powers and achieve its purpose within the geographical area bounded by the right of way furthest from the shore of California State Highway 111, Avenue 70, Lincoln Street, Avenue 72, Buchanan Street, California Highway 86, Bannister Road, Kalin Road, and Sinclair Road to California State Highway 111. The Parties may amend the boundaries of this geographical area. The boundaries encompass the Base Area, which is further described below and depicted on Attachment 1.

Project Description

Project

The Project entails the evaluation of the feasibility of using tax increment financing vehicles to generate revenue for the Salton Sea restoration project. Components of the Project include:

- Identifying the geographical area within which the Salton Sea Authority has jurisdiction, and the land area the Authority is considering for an Infrastructure Improvement District;
- Identifying potential tax increment revenue;
- Identifying potential new development proposals and;
- Identifying the scope of proposed restoration projects, the desired implementation schedule, and their anticipated costs.

Study Area

The Study Area is comprised of two geographical areas, the Base Area and the Expanded Area (see Attachment 1). The boundaries of both areas are described below.

Base Area

Base Area boundaries include the right of way furthest from the shore of California State Highway 111, Avenue 70, Lincoln Street, Avenue 72, Buchanan Street, California Highway 86, Bannister Road, Kalin Road, and Sinclair Road to California State Highway 111. The Base Area comprises the Authority's jurisdictional boundaries.

Expanded Area

The Expanded Area incorporates the boundaries of the Base Area as well as additional land on the northeast side of the Sea, which is bounded by the Coachella Canal, Club Drive View, Power Line Road and Salt Creek Road. The Expanded Area also includes land on the northwest side of the Sea just west of the California Highway 86. The expanded area was included to evaluate the financial implications of expanding a finance district beyond the current jurisdictional boundaries of the Authority. As described in Attachment 1 the current boundaries are much closer to the Sea's shoreline in the north than they are in the south. The Expanded Area was designed to provide a more balanced boundary while including lands on the west, north and eastern sides of the Sea that may realize property value increases under one or more restoration scenarios.

Methodology

The following is a description of the approach and methodology employed to evaluate the feasibility of using tax increment financing vehicles to generate capital for the Salton Sea restoration project. The approach to the feasibility analysis included five key tasks. Completion of these tasks required the use of both primary and secondary research methods.

Data Collection and Review

As a point of departure, RSG reviewed resource materials provided by the Authority. These materials included:

- Imperial Irrigation District Water Conservation and Transfer Project – Final EIR/EIS
- The Economic Importance of the Salton Sea Sportfishery Report, prepared by CIC Research, Inc.
- The Joint Powers Agreement Creating the Salton Sea Authority
- An Economic Analysis of the Benefits of Rehabilitating the Salton Sea, prepared by Michael J. Bazdarich.
- California Government Code Section 53395.9

- California Redevelopment Law

RSG then conducted a field survey of the land area within the Authority's jurisdiction. The survey was used to catalog existing conditions and to identify any unique circumstances that may impact forming an infrastructure financing district.

Taxing Agencies and Tax Rate Data

Concurrent with the field survey, base data was collected from the Imperial and Riverside County Assessor and Auditor Controller offices. The data included assessed parcel values and ownership data, tax rate area maps, the 1% tax levy breakout reports. Assessed value and ownership data was also obtained from MetroScan, a third party data repository typically known for warehousing assessed property value, ownership and property tax information for properties throughout the State of California.

Growth Projections

Growth forecasts for the Salton Sea region were obtained from the Southern California Association of Governments (SCAG). The forecasts included information pertaining to growth in population, households and employment between the years 2000 and 2025. Using the data provided by SCAG, and RSG's basic understanding of the Study Area an annual growth rate was established and included in the revenue projections as a growth factor.

New Construction

New development within the Study Area boundaries will generate the tax increment revenue that will support an improvement district's financings. RSG interviewed the planning and/or community development department staffs of both Imperial and Riverside Counties to ascertain current and proposed new development proposals for the property within the Study Area boundaries. RSG also conducted an interview with CalEnergy one the major property owners within the Study Area with significant plans for an expansion project. The timing and anticipated value of each proposal has been documented. A schedule of new construction was prepared and used in the revenue projections.

Revenue Projections

Using the assessment information, the tax rate area data, and schedule of anticipated new development projects, tax increment revenue projections were prepared for each Study Area option. Annual and cumulative revenues were delineated, as well as the present value of the cumulative revenue. Further, the revenue that is attributable to taxing agencies within the Study Area was identified.

Analysis

Sea Restoration Projects

Sea Restoration Scenarios

No Action

Under the No Action Scenario there is no restoration. There are several potential "No Action" scenarios, including scenarios where the Sea continues its gradual water quality decline but maintains its current elevation and with likely water transfers, where the Sea reduces in size and water quality degradation accelerates.

The distinction between various No Action scenarios is beyond the scope of this study. Generally without restoration the Sea declines and property value trends are predicted to be similar in the next few decades to those experienced in the past two to three decades (relatively stagnant growth).

Sea reduction due to transfers or diversion of Sea water to other users would lead to modest growth but insignificant tax revenue amounts.

Full Sea Restoration

The Full Sea Restoration scenario assumes restoration of the entire Sea. Under this scenario the Sea would be maintained at or slightly below its current size and elevation through water transfers and other potential reductions of inflow into the Sea. This scenario would entail the development of a very large pump-in/pump-out strategy that would involve massive exchanges of Sea water with water from the Gulf of California or the Pacific Ocean. Implementing this scenario to maintain the current Sea size would be complex and expensive.

Salinity could be maintained at or around 40 parts per thousand (PPT) slightly higher than ocean level salinity, which is about 35 PPT. The exchange of water with the Gulf or the ocean would help reduce nutrients in the Sea, so it is likely that odor problems would be somewhat less than they are today. This scenario would certainly stabilize elevation and water quality but at great cost.

Salton Lake Concept

The Salton Lake Concept includes several integrated components to manage Sea salinity and elevation. The main component includes a mid-Sea dam, a perimeter channel to convey water to the northern portion of the Sea, expansion of area available for geothermal development and creation of shallow water habitat in the southern portion of the Sea. Geothermal development opportunities

may not become available until 15 to 20 years from inception of the project. This scenario would effectively negate the loss of inflows due to transfers and stabilize the salinity and elevation of the Sea by maintaining a higher quality deep water lake in the north basin of the Sea and maintaining and creating extensive shallow water habitats in the south basin of the Sea. The middle of the south basin would be used to store salts (see Attachment 2).

South Sea Restoration

The South Sea Restoration Scenario would essentially reverse the Salton Lake Concept. A dike could be constructed across the middle reaches of the Sea and a lake could be maintained in the south. Some wetlands could be maintained in the north but would likely be far less extensive than the shallow water wetlands described under the Salton Lake Concept because of water requirements to support the larger south lake impoundment, reduced fresh/brackish water supplies from the Coachella Valley and concerns about Selenium in the north basin soils. This scenario however would not provide the same degree of geothermal development opportunities described under the Salton Lake Concept scenario because land in the southern portion of the Sea would remain covered by the Sea.

Restoration Implementation Schedule

Assuming a base year of 2004, it is estimated that full restoration of the Sea would require approximately 12 years to complete. Based on discussions with Authority staff and information from Tetra Tech (the Authority's engineering team) it would take five to six years to get authorization and funding into place and another six to seven years to complete construction. Implementation of the North and South Sea restoration programs would require approximately 8 years to complete project permitting and construction (3 years for permitting and 5 years for construction),

Restoration Related Costs

According to Authority staff and information provided by Tetra Tech, the present value cost of the Full Sea Restoration program would likely exceed $10 billion. The costs associated with the Salton Lake Concept and South Sea restoration scenario would likely range from $1.0 billion to $1.5 billion in present value.[1]

Taxing Agencies

Establishment of an IFD or RPA within the boundaries of the Study Area would divert a portion of the growth in property tax revenue generated as a result of new development from taxing agencies in both Riverside and Imperial Counties.

[1] Present Value – value today of a future payment or stream of payments discounted at some appropriate compound interest or discount rate.

Listed in the tables below are the affected taxing agencies for both Riverside and Imperial Counties.

Riverside County taxing agencies include the following:

RIVERSIDE COUNTY TAXING AGENCIES			
Riverside County	CV-Mecca Comp Unif	County Service Area 125*	CVWD Imp Dist 17
County Free Library	CV-Oasis Comp Unif	CSA 152	CVWD Imp Dist 50
County Structure Fire Protection	CV-Oasis/Mecca Comp Unif	Coachella Valley Public Cemetary	CVWD Imp Dist 55
Supervisorial Road District 4	CV-Thermal U Comp Unif	SO Coachella Valley CSD	CVWD Service Area 42
Airports-1988 Chiriaco	CV-Thermal/Mecca Comp Unif	CV MOSQ & Vector Countrol	
Project 4-Thermal	Desert Community College	Coachella Valley Rec and Park	
Project 4-Mecca	Riv. Co. Office of Education	CVWD Imp Dist 15	
Project 4-North Shore	County Waste Resource Mgmt Dist	Coachella Velley Water District	
Coachella Valley Unified School	Riv Co Reg Park & Open Space	CVWD Imp Dist 10	
Coachella Val Jt Bld High	County Service Area 97*	CVWD Imp Dist 13	

Source: Riverside County Auditor Controller

Imperial County taxing agencies include:

IMPERIAL COUNTY TAXING AGENCIES			
Imperial County	Juvenile Hall	CVCWD General	Coachella Comm. College
Riverview Cemetery	Aurrally Handicapped	CVCWD 13	RC Development Center
Pioneers Memorial Hospital	Superintendent of Schools	CVCWD 14	RC Reg Occup. Program
City of Westmorland	Development Center	CVCWD 15	RC Phys Handicapped
Imperial Community College	County Library	CVCWD 51	RC SMR
Brawley Union High	County Fire Protection	CVCWD Stormwater	RC Capital Outlay
Westmorland Elementary	Calipatria Unified	Salton Community Services Dist	RC Child Devel. Center
Childrens Institution Tuition	Niland Fire	Sea Oasis Community Services	
Physically Handicapped	Niland Sanitary	CVCWD 11	
Trainable SMR	Bombay Beach	Coachella Valley Unified	

Source: Imperial County Auditor Controller

The tax rates for each of the affected taxing agencies are shown in Attachment 3.

New Development Proposals

In June of 2003 RSG staff met with a representative of CalEnergy Operating Corp. (CalEnergy), operator of a geothermal energy complex located in Imperial County along the shores of the Sea. During this meeting the representative discussed CalEnergy's plans for a $460 million expansion of their geothermal power complex. Construction of the plant is scheduled to begin in the third quarter of 2003, with a completion date some time during the summer of 2006.

It is envisioned that the project would require 69 new, full-time employees and from 450 to 500 highly skilled positions during construction. The new facility is expected to generate approximately $3.0 million in new property taxes.

In subsequent discussions with CalEnergy, it was revealed that assuming a Sea restoration scenario that exposes the land under the southern portion of the Sea there would be opportunities to develop seven additional power plants similar to the plant described above. It should be noted however, that for development of these power plants to occur substantial transmission capacity must be developed and purchase contracts for delivery of energy must be in place. With this in mind, RSG has included in this analysis the development of two power plants in addition to CalEnergy's existing proposal.

RSG assumes the first of the two additional plants could be developed 20 years from inception of the Sea restoration project. Based on an annual inflation rate of 2.0%, construction costs are estimated to increase from $460 million in the year 2006 to approximately $650 million in 2024. The second plant is estimated to come online 20 years after the first plant at a construction cost of $970 million based on the same inflation rate. For the purpose of this analysis the value of the power plants is assumed to be equal to the cost of development.

In addition to the development of new power plants, RSG also assumed that Sea restoration activities would spur the development of residential, commercial and retail land uses. Development capacity associated with these land uses is based on the amount of private acreage RSG assumed to be developable in designated subareas surrounding the shore of the Sea. As shown in Attachment 4, the designated subareas are as follows:

- West Shore
- Northwest Shore
- Whitewater Delta
- North Shore
- East Shore
- Southeast Shore
- Imperial Valley Agriculture

Based on the restoration scenarios, the subarea location and an estimated likelihood of development occurring in a given subarea, factors ranging from 2% to 20% were applied to the gross acreage of a subarea to determine the amount of acres, which could likely be used for development. Once the usable acres were converted to square feet a floor-area-ratio (FAR) of 30% was applied to arrive at the subareas development capacity. The following tables present the estimated development capacity by subarea for each restoration scenario. It should be noted that the No Action scenario assumes annual growth of 2.0% only and does not include specific development projects, thus no development program table is shown.

FULL SEA DEVELOPMENT PROGRAM				
	Riverside County Developable ~~SqFt~~		**Imperial County Developable ~~SqFt~~**	**Total Developable ~~SqFt~~**
Base Area		Base Area		
Northwest Shore	14,754,295	West Shore	39,799,901	
North Shore	4,188,477	East Shore	3,160,496	
Whitewater Delta	2,520,245	Southeast Shore	5,127,883	
East Shore	927,665	Imp. Valley Ag.	-	
Subtotal	**22,390,681**	Subtotal	**48,088,280**	**70,478,961**
Expanded Area		Expanded Area		
Northwest Shore	10,819,128	West Shore	23,132,320	
North Shore	21,838,431	East Shore	11,608,958	
Whitewater Delta	3,066,231	Southeast Shore	-	
East Shore	39,010,202	Imp. Valley Ag.	-	
Subtotal	**74,733,992**	Subtotal	**34,741,278**	**109,475,270**
Total	**97,124,673**		**82,829,558**	**179,954,231**

SALTON LAKE CONCEPT DEVELOPMENT PROGRAM				
	Riverside County Developable ~~SqFt~~		**Imperial County Developable ~~SqFt~~**	**Total Developable ~~SqFt~~**
Base Area		Base Area		
Northwest Shore	14,754,295	West Shore	39,799,901	
North Shore	4,188,477	East Shore	3,160,496	
Whitewater Delta	2,520,245	Southeast Shore	-	
East Shore	927,665	Imp. Valley Ag.	-	
Subtotal	**22,390,681**	Subtotal	**42,960,397**	**65,351,078**
Expanded Area		Expanded Area		
Northwest Shore	10,819,128	West Shore	23,132,320	
North Shore	21,838,431	East Shore	11,608,958	
Whitewater Delta	3,066,231	Southeast Shore	-	
East Shore	39,010,202	Imp. Valley Ag.	-	
Subtotal	**74,733,992**		**34,741,278**	**109,475,270**
Total	**97,124,673**		**77,701,675**	**174,826,348**

SOUTH SEA DEVELOPMENT PROGRAM				
	Riverside County Developable SqFt[1]		Imperial County Developable SqFt	Total Developable SqFt
Base Area		Base Area		
Northwest Shore	-	West Shore	13,266,634	
North Shore	-	East Shore	3,160,496	
Whitewater Delta	-	Southeast Shore	25,639,416	
East Shore	-	Imp. Valley Ag.	5,034,447	
Subtotal	**-**	Subtotal	**47,100,992**	**47,100,992**
Expanded Area		Expanded Area		
Northwest Shore	-	West Shore	7,710,773	
North Shore	-	East Shore	6,965,375	
Whitewater Delta	-	Southeast Shore	-	
East Shore	-	Imp. Valley Ag.	-	
Subtotal	**-**		**14,676,148**	**14,676,148**
Total	**-**		**61,777,140**	**61,777,140**

[1] Development assumed to be on par with development trend over the past 20 to 30 years and is represented by a 2% growth rate in the revenue projections. No specific development assumed.

A per square foot construction value which ranged from $55.00 to $65.00 was used to estimate development costs.

Study Area Assessed Values

For the purpose of this study, RSG utilized anticipated new development plus a straight 2.0% per year growth factor to increase the assessed value in Imperial County and in Riverside County. The growth factor reflects the standard Proposition 13 inflation adjustment so as to not overstate the revenue projections.

Revenue Projections

Revenue projections were prepared for the IFD and RPA alternatives. The revenue projections assume a base year of 2004-05. Revenues are projected over a 45-year period (fiscal years 2004-05 through 2049-50). Detailed revenue projections are presented in Attachments 5 through 28.

IFD

The IFD projections incorporate the following assumptions:

- The base tax rate is 1.0%. Per IFD legislation the school districts portion of tax rate are not eligible for participation in an IFD and must be pass-through to the districts. The districts represent nearly 0.4000% percent in Imperial County and 0.5000% in Riverside County. Thus the projections assume a tax rate of 0.6019% for Imperial County and 0.4957% for Riverside County.

- Assessed values are generally assumed to increase at 2.0% per year.

- Assumes development assumption for each of the Sea restoration scenarios.

The following tables present a summary of the cumulative net tax increment revenues that would be generated in the Riverside and Imperial County portions of both the base and expanded Study Areas. The tables show the amount of revenue that would be retained by the Authority assuming receipt of all but school district revenue and no tax increment revenue (after school district revenue is deducted) is paid to the affected taxing agencies. These revenue amounts are also expressed in present value terms based upon a 6.0% discount rate.

SALTON SEA AUTHORITY TAX INCREMENT FINANCING FEASIBILITY STUDY
INFRASTRUCTURE FINANCING DISTRICT ALTERNATIVE
NO ACTION SCENARIO

Cumulative Net Revenue (FY 2004-05 thru 2049-50)			
	IFD		
	Riverside	Imperial	Combined
Base Area	$10,497,968	$226,559,199	$237,057,167
Expanded Area	$22,633,350	$230,451,079	$253,084,429
Net Present Value of Cumulative Net Revenue (FY 2004-05 thru 2049-50)			
	IFD		
	Riverside	Imperial	Combined
Base Area	$2,138,835	$60,232,858	$62,371,692
Expanded Area	$4,611,273	$61,025,781	$65,637,054

NPV assumes discount rate of 6.0%

SALTON SEA AUTHORITY TAX INCREMENT FINANCING FEASIBILITY STUDY
INFRASTRUCTURE FINANCING DISTRICT ALTERNATIVE
FULL RESTORATION SCENARIO

Cumulative Net Revenue (FY 2004-05 thru 2049-50)			
	IFD		
	Riverside	Imperial	Combined
Base Area	$226,643,056	$797,464,856	$1,024,107,912
Expanded Area	$968,290,743	$1,160,669,311	$2,128,960,054
Net Present Value of Cumulative Net Revenue (FY 2004-05 thru 2049-50)			
	IFD		
	Riverside	Imperial	Combined
Base Area	$35,798,013	$150,636,842	$186,434,855
Expanded Area	$151,873,701	$205,883,948	$357,757,649

NPV assumes discount rate of 6.0%

SALTON SEA AUTHORITY TAX INCREMENT FINANCING FEASIBILITY STUDY
INFRASTRUCTURE FINANCING DISTRICT ALTERNATIVE
SALTON LAKE CONCEPT

Cumulative Net Revenue (FY 2004-05 thru 2049-50)			
	IFD		
	Riverside	Imperial	Combined
Base Area	$273,679,104	$974,567,777	$1,248,246,881
Expanded Area	$1,174,078,375	$1,457,172,232	$2,631,250,607
Net Present Value of Cumulative Net Revenue (FY 2004-05 thru 2049-50)			
	IFD		
	Riverside	Imperial	Combined
Base Area	$48,364,592	$185,544,966	$233,909,558
Expanded Area	$206,853,803	$270,420,100	$477,273,903

NPV assumes discount rate of 6.0%

SALTON SEA AUTHORITY TAX INCREMENT FINANCING FEASIBILITY STUDY
INFRASTRUCTURE FINANCING DISTRICT ALTERNATIVE
SOUTH SEA SCENARIO

Cumulative Net Revenue (FY 2004-05 thru 2049-50)			
	IFD		
	Riverside	Imperial	Combined
Base Area	$10,497,968	$812,439,323	$822,937,291
Expanded Area	$22,633,350	$1,012,247,672	$1,034,881,022
Net Present Value of Cumulative Net Revenue (FY 2004-05 thru 2049-50)			
	IFD		
	Riverside	Imperial	Combined
Base Area	$2,138,835	$163,138,230	$165,277,064
Expanded Area	$4,611,273	$198,342,386	$202,953,659

NPV assumes discount rate of 6.0%

RPA

The RPA projections incorporate the following assumptions:

- The tax rate for the areas is assumed to be 1.0%.
- Assessed values are generally assumed to increase at 2.0% per year.
- AB1290 statutory pass-throughs and affordable housing set-aside funds are deducted from gross tax increment revenue.

- Assumes development assumption for each of the Sea restoration scenarios.

The following tables summarizes the cumulative net tax increment revenues that would be generated in the Riverside and Imperial County portions of both the base and expanded Study Areas. Since these revenues would be allocated over the 45-year term of the projections the revenue amounts are also expressed in present value terms based upon a 6.0% cost of Agency money.

SALTON SEA AUTHORITY TAX INCREMENT FINANCING FEASIBILITY STUDY
REDEVELOPMENT PROJECT AREA ALTERNATIVE
NO ACTION SCENARIO

Cumulative Net Revenue (FY 2004-05 thru 2049-50)			
	RPA		
	Riverside	Imperial	Combined
Base Area	$10,497,968	$226,559,199	$237,057,167
Expanded Area	$22,633,350	$230,451,079	$253,084,429
Net Present Value of Cumulative Net Revenue (FY 2004-05 thru 2049-50)			
	RPA		
	Riverside	Imperial	Combined
Base Area	$2,138,835	$60,232,858	$62,371,692
Expanded Area	$4,611,273	$61,025,781	$65,637,054

NPV assumes discount rate of 6.0%

SALTON SEA AUTHORITY TAX INCREMENT FINANCING FEASIBILITY STUDY
REDEVELOPMENT PROJECT AREA ALTERNATIVE
FULL SEA SCENARIO

Cumulative Net Revenue (FY 2004-05 thru 2049-50)			
	RPA		
	Riverside	Imperial	Combined
Base Area	$191,423,607	$573,040,809	$764,464,416
Expanded Area	$815,253,849	$847,850,001	$1,663,103,851
Net Present Value of Cumulative Net Revenue (FY 2004-05 thru 2049-50)			
	RPA		
	Riverside	Imperial	Combined
Base Area	$30,852,029	$115,202,637	$146,054,666
Expanded Area	$130,096,853	$158,795,950	$288,892,802

NPV assumes discount rate of 6.0%

SALTON SEA AUTHORITY TAX INCREMENT FINANCING FEASIBILITY STUDY
REDEVELOPMENT PROJECT AREA ALTERNATIVE
SALTON LAKE CONCEPT

Cumulative Net Revenue (FY 2004-05 thru 2049-50)			
	RPA		
	Riverside	Imperial	Combined
Base Area	$236,233,844	$723,807,236	$960,041,081
Expanded Area	$1,011,303,332	$1,065,745,114	$2,077,048,446

Net Present Value of Cumulative Net Revenue (FY 2004-05 thru 2049-50)			
	RPA		
	Riverside	Imperial	Combined
Base Area	$42,700,738	$146,100,118	$188,800,857
Expanded Area	$181,936,196	$207,443,577	$389,379,773

NPV assumes discount rate of 6.0%

SALTON SEA AUTHORITY TAX INCREMENT FINANCING FEASIBILITY STUDY
REDEVELOPMENT PROJECT AREA ALTERNATIVE
SOUTH SEA SCENARIO

Cumulative Net Revenue (FY 2004-05 thru 2049-50)			
	RPA		
	Riverside	Imperial	Combined
Base Area	$10,023,960	$616,565,770	$626,589,730
Expanded Area	$21,611,400	$758,314,256	$779,925,656

Net Present Value of Cumulative Net Revenue (FY 2004-05 thru 2049-50)			
	RPA		
	Riverside	Imperial	Combined
Base Area	$2,200,865	$130,824,778	$133,025,643
Expanded Area	$4,745,008	$156,326,987	$161,071,995

NPV assumes discount rate of 6.0%

Conclusion

RSG evaluated the financial feasibility of establishing an IFD as well as the financial feasibility of establishing an RPA within the jurisdictional boundaries of the Authority. Establishment of an RPA could generate tax increment revenue in an amount ranging from $626.5 million to $960.0 million net of statutory pass-through payments to local taxing entities and the 20.0% housing set a-side. To establish an RPA, based on California Redevelopment Law, 80% of the land in a project area must be urbanized meaning it has been or is developed for urban use. Though some of the proposed RPA is urbanized a substantial portion of land has never been developed. To this end, special legislation would be required to facilitate redevelopment for a special purpose.

REDEVELOPMENT PROJECT AREA

Cumulative Net Revenue (FY 2004-05 THRU 2049-50)			
	Full Sea Scenario	**Salton Lake Concept**	**South Sea Scenario**
Base Area	$764,464,416	$960,041,081	$626,589,730
Expanded Area	$1,663,103,851	$2,077,048,446	$779,925,656
Net Present Value of Cumulative Net Revenue (FY 2004-05 THRU 2049-50)			
Base Area	$146,054,666	$188,800,857	$133,025,643
Expanded Area	$288,892,802	$389,379,773	$161,071,995

Establishment of an IFD would generate tax increment revenue in an amount ranging from $822.0 million to $1.2 billion. This range in revenue is approximately $196.3 million to $288.2 million higher than that of an RPA. There would be no special legislation required to establish an IFD. While there are no statutory pass-through payments required with an IFD, there would be the need to negotiate pass-through agreements with effected taxing entities pertaining to the incremental growth in tax revenue from increased property values. An IFD would also require voter approval.

INFRASTRUCTURE FINANCE DISTRICT

Cumulative Net Revenue (FY 2004-05 THRU 2049-50)			
	Full Sea Scenario	**Salton Lake Concept**	**South Sea Scenario**
Base Area	$1,024,107,912	$1,248,246,881	$822,937,291
Expanded Area	$2,128,960,054	$2,631,250,607	$1,034,881,022
Net Present Value of Cumulative Net Revenue (FY 2004-05 THRU 2049-50)			
Base Area	$186,434,855	$233,909,558	$165,277,064
Expanded Area	$357,757,649	$477,273,903	$202,953,659

As evidenced in the above analysis, the Salton Lake Concept appears to generate the greatest amount of tax increment revenue under both the IFD and RPA alternative. While the costs of implementing this scenario ranges from $1.0 billion to $1.5 billion it could generate from $1.2 billion to $2.6 billion under the IFD and from $960.0 million to $2.0 billion under the RPA.

RSG also analyzed the financial implications of establishing an IFD or RPA assuming the jurisdictional boundaries of the Authority were expanded beyond its current limits. Expansion of the Authority's jurisdictional boundaries could result in substantial increases in tax increment revenue under both the IFD and RPA alternatives.

Recommendations

Based on the findings presented in the above analysis it is RSG's recommendation that the Authority pursue the establishment of an IFD rather than an RPA. The IFD alternative would result in more revenue to the Authority than the RPA alternative assuming the Authority receives all of the tax increment generated under the IFD. Additionally, the IFD alternative would not require special legislation in order to be implemented. Furthermore, unless special legislation can be developed to facilitate redevelopment for a special purpose establishment of an RPA could not be accomplished at this time.

Assuming the Authority is unable to negotiate an agreement with the affected taxing entities, which would allow the Authority to retain all of the tax increment, less revenue would be available to the Authority. If after reviewing the requirements to gain taxing entity approval for forming a district it is found that revenues available to the Authority are significantly reduced, it may be feasible to pursue the necessary legislation in order to form an RPA.

RSG recommends that due to the potential for increased development opportunities and significant increases in tax increment revenues generated, the jurisdictional boundaries of the Authority should be expanded in order to facilitate

the growth in value of properties that could be influenced by restoration of the Sea.

Next Steps

- Distribute the feasibility report to the Technical Advisory Committee (TAC) and the JPA Board of Directors.
- Seek Board authorization to move forward with expanding the JPA boundaries and initiating discussions with affected taxing agencies regarding expanding the JPA boundaries and the IFD financing option.
- Distribute feasibility report and meet with affected taxing entities.
- Enter into negotiations with affected taxing entities.
- Take actions to expand JPA boundaries.
- Contact property owners within the boundaries of the project area.